In contrast, classical development theory and new trade literature go beyond the static welfare gains from trade creation and diversion effects when analysing the effect of PTAs. Developing countries can use PTAs to overcome limitations of their domestic market size in the industrialization process (Dahi and Demir, 2013). Such potential increases in the effective market size could help industries in developing countries achieve economies of scale and increase the skill content of production and exports, which in turn could improve the market penetration of exports of developing countries in developed markets in industrial products (Fugazza and Robert-Nicoud, 2006). Also, due to similarities in production patterns and resource base among developing countries, incentivising trade by lowering barriers could facilitate appropriate technology transfer, according to the needs of developing countries (UNIDO, 2006). Of particular relevance for developing countries, it is argued that the products that countries export matter for long-term economic performance. If a country exports products from industries that are more technology-intensive, these are likely to create input-output linkages and spillover effects in human and physical capital accumulation and innovation (Hausmann, Hwang and Rodrik, 2007). Furthermore, by allowing for factor accumulation, PTAs can reduce intra-block trade barriers and increase competition and access to cheaper intermediate goods, triggering changes in industrial production in member countries. As such, PTAs among “South” countries can reduce intra-South barriers and lead to industrialization of the region (Puga and Venables, 1998). In this context, what matters are not static gains from PTAs, but dynamic gains in industrial development. If South-South PTAs truly promote industrial development of member countries, they might be desirable even if there are short-term losses due to trade diversion (Dahi and Demir, 2013). Other arguments in the development literature emphasize the asymmetries in bargaining power between “North” and “South” countries, which could lead to worse outcomes for developing countries if their policy space gets restricted (Thrasher and Gallagher, 2008). To the extent that these arguments hold true, developing countries could be better off entering into South-South rather than North-South agreements, or at least should pursue both kinds of agreements.

**References**

Cipollina, M. and Salvatici, L. (2010) ‘Reciprocal Trade Agreements in Gravity Models: A Meta-Analysis’, *Review of International Economics*, 18(1), pp. 63–80. Available at: https://doi.org/10.1111/j.1467-9396.2009.00877.x.

Dahi, O.S. and Demir, F. (2013) ‘Preferential trade agreements and manufactured goods exports: does it matter whom you PTA with?’, *Applied Economics*, 45(34), pp. 4754–4772. Available at: https://doi.org/10.1080/00036846.2013.804169.

Deme, M. and Ndrianasy, E.R. (2017) ‘Trade-creation and trade-diversion effects of regional trade arrangements: low-income countries’, *Applied Economics*, 49(22), pp. 2188–2202. Available at: https://doi.org/10.1080/00036846.2016.1234700.

Fugazza, M. and Robert-Nicoud, F. (2006) ‘Can South-South trade Liberalisation Stimulate North-South Trade?’, *Journal of Economic Integration*, 21(2), pp. 234–253.

Hausmann, R., Hwang, J. and Rodrik, D. (2007) ‘What You Export Matters’, *Journal of Economic Growth*, 12(1), pp. 1–25.

Kohl, T. (2014) ‘Do we really know that trade agreements increase trade?’, *Review of World Economics / Weltwirtschaftliches Archiv*, 150(3), pp. 443–469.

Krugman, P. (1995) ‘Growing World Trade: Causes and Consequences’, *Brookings Papers on Economic Activity* [Preprint].

Mayda, A.M. and Steinberg, C. (2007) ‘Do South-South Trade Agreements Increase Trade? Commodity-Level Evidence from COMESA’. Rochester, NY. Available at: https://papers.ssrn.com/abstract=967881 (Accessed: 13 August 2024).

Medvedev, D. (2006) ‘Preferential Trade Agreements and Their Role in World Trade’. Rochester, NY. Available at: https://papers.ssrn.com/abstract=938031 (Accessed: 13 August 2024).

Puga, D. and Venables, A.J. (1998) ‘Trading Arrangements and Industrial Development’.

Sanguinetti, P., Siedschlag, I. and Martincus, C.V. (2010) ‘The Impact of South-South Preferential Trade Agreements on Industrial Development: An Empirical Test’, *Journal of Economic Integration*, 25(1), pp. 69–103.

Schiff, M. and Wang, Y. (2008) ‘North-South and South-South Trade-Related Technology Diffusion: How Important Are They in Improving TFP Growth?’, *The Journal of Development Studies*, 44(1), pp. 49–59. Available at: https://doi.org/10.1080/00220380701722282.

Schiff, M.W., Winters, L.A. and Schiff, M. (2003) *Regional Integration And Development*. Washington, UNITED STATES: World Bank Publications. Available at: http://ebookcentral.proquest.com/lib/londonschoolecons/detail.action?docID=3050563 (Accessed: 12 August 2024).

Thrasher, R.D. and Gallagher, K.P. (2008) ‘21st Century Trade Agreements: Implications for Long-Run Development Policy’, (2).

UNIDO (2006) *Industrial Development, Trade and Poverty Reduction through South-South Cooperation*. Available at: https://www.unido.org/sites/default/files/2013-02/industrial\_development\_south\_south\_cooperation\_0.pdf (Accessed: 13 August 2024).

Venables, A.J. (2003) ‘Winners and Losers from Regional Integration Agreements’, *The Economic Journal*, 113(490), pp. 747–761. Available at: https://doi.org/10.1111/1468-0297.t01-1-00155.